Energy Brief

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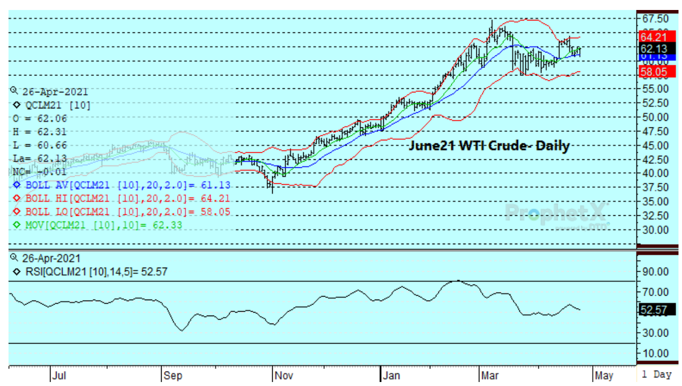
Prepared by Steve Platt and Mike McElroy

877-377-7931

Stephen.Platt@archerfinancials.com
Mike.McElroy@archerfinancials.com

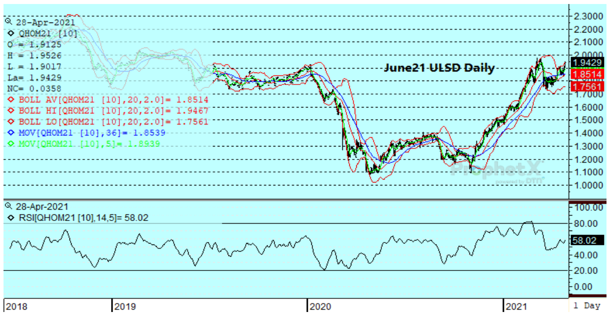
Price Overview

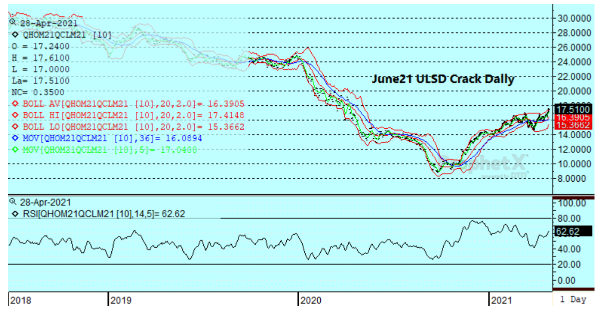


The petroleum complex took yesterday's larger than expected build in API stocks of 4.2 mb in stride, working higher on buying interest linked to potential for improved demand in the 2nd half of 2021 spurred by the US and Chinese economies, and a recovery in economic activity in Europe as the pace of vaccinations picks up. The optimistic tone was supported by Goldman Sachs forecasting that oil demand will see the largest increase ever, rising by 5.2 mb/d over the next few months. The forecast suggested that the easing of international travel restrictions in May would hike jet fuel demand by as much as 1.5 mb/d. The market ignored continuing reports that COVID infections in India were on the rise and instead considered the pace of additional aid from major economic powers to help their efforts to fight the rise in infections and assist in vaccination efforts.

The DOE report showed crude inventories off 1.4 mb/d compared with expectations for a build of .7 mb. Gasoline inventories rose by .1 mb while distillate fell by a sharper than expected 3.3 mb. Total inventories including products fell by 1.6 mb. It was surprising that despite a surge in net imports of crude to 4.1 mb/d from 2.9 mb/d in the prior week, inventories did not increase. Refinery utilization increased to 85.4 percent while total disappearance rose to 20.4 mb/d compared to 18.8, with distillate rising to 4.3 mb/d from 3.9 in the prior week.

Diesel prices continue to show underlying strength as the refiners' crude oil slate shades to gasoline production. Better demand as we move into the planting season for row crops, the strengthening of biodiesel credits and economic growth are also supporting values. Prices are now near the highs established in mid-March when they reached levels not seen since 2019 near $2.00 per gallon despite a historically weak margin or crack spread that currently is at 17.50 per barrel.





Natural Gas

The market continues to impress as new highs for the move were achieved each of the last three sessions. The June contract settled at 2.96, up 2 cents on the day and 12 cents for the week. LNG continues to be the story as flows come in near maximum capacity every day. The outlook into the summer shows ample premiums of European and Asian prices over US levels, with exports expected to remain near capacity into the fall. Recent drawdowns in European stocks due to cold temperatures have amplified the amount of gas they will need to replenish stocks to safe levels by the fall, further solidifying the positive outlook for US exports. Production will also be monitored closely, with recent minor slowing due to seasonal maintenance offering underlying support. Concerns regarding temperatures and hurricanes will begin to creep into the narrative as we inch closer to the summer injection season and forecasts begin to take shape. With the RSI near 80 percent and prices recoiling from the run at the 3.00 level this morning, a near term retrenchment looks likely, with the 2.80 area a likely backstop. With the help of speculative interest, the rally looks poised to resume, with the February double top at 3.082 the next target.